

Labour Market Developments in the Czech Republic

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Abbreviations used (Czech version in brackets)

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|---------------|-------------------------------------------------------------|
| ALMP (APZ) | Active Labour Market Policy |
| CR (ČR) | Czech Republic |
| CSO (ČSÚ) | Czech Statistical Office |
| CSSA(ČSSZ) | Czech Social Security Administration |
| DLO (ÚP) | District Labour Office |
| ESA (SSZ) | Employment Services Administration |
| EU | European Union |
| LFS (VŠPS) | Labour Force Survey |
| LLL | Life Long Learning |
| LTU | Long term Unemployment |
| LRP | Lisbon Reform Programme |
| MoL (MPSV) | Ministry of Labour and Social Affairs |
| MF (MF ČR) | Ministry of Finance |
| RILSA (VÚPSV) | Research Institute for Labour and Social Affairs at the MoL |

EXECUTIVE SUMMMARY

- The June 2006 parliamentary elections ended in a stalemate with the Lower Chamber (Chamber of Deputies) divided 100 to 100. Almost six months after the election date, the second attempt to form a viable government is in progress. Currently, the most likely outcome is for the country to be governed by a left-right (grand) coalition that would have little of a reform mandate and that would effectively extend the present lack of government and fiscal deterioration until ‘early’ elections some time in 2008 or 2009.
- As a result, there has been no policy action taken during the recent months. The only policy “action” is that most of the spring-2006 legislation increasing mandatory spending survived the post-election discussions and stalemate and is about to wreak damage on the already unstable fiscal position of the Czech public finances.
- Similarly, the recently enacted Labour Code also survived criticism by employer associations and will become effective as of January 2007.
- Meanwhile, the economy continues to grow at rates above 6% and the strong growth continues to slowly chip away at short-term unemployment.

1 Introduction

This report covers the developments in the Czech Republic since June 2006; it is atypical in that it reports on a protracted post-election-negotiation period, during which there is very little policy action. As of late November 2006, that is almost 6 months after the parliamentary election date, the Czech Republic still has no viable government and the chances of a pro-reform government are slim, as is the prospect of holding early elections in the foreseeable future. Unfortunately, it is becoming increasingly clear that a great deal of the high-spending policies adopted during the pre-election months and designed to become effective in 2007 will survive the recent debates and will actually become effective as of next calendar year.²

The political situation changed surprisingly little since our previous report. Suffice it to repeat that the elections were won by the Civic Democratic Party, which campaigned under flat-tax slogans, and which, together with its two possible coalition partners, the Christian Democrats and the Greens,³ holds 100 seats in the 200-seat Lower Chamber of the Czech Parliament. The formerly ruling Social Democratic party came in second, but, together with the hard-line Communist party, controls the other 100 seats.

The first coalition government of the designated Prime Minister M. Topolánek failed to secure the required 101 votes to gain confidence and had to resign. It only managed to get a status-quo no-reform 2007 government budget approved. Following the strong showing of the Civic Democrats in the October municipal and Senate elections, the President has, again, charged Mr. Topolánek with forming another government. Social Democrats effectively block speedy holding of early elections as they may lose seats in the parliament. Hence, it now appears likely that the country is headed towards a grand coalition of all parties (except Communists), where Social Democrats will block all strong reforms (such as the introduction of college tuition or flat taxes). The greatest worry is that such a government may be able to lower taxes (in line with the reform program of Civic Democrats) without lowering mandatory expenditure (in accord with Social-Democratic agenda), which would result in further deterioration of the dramatic Czech fiscal deficits. The greatest hope is that a broad coalition may agree on a pension reform, but so far this appears unlikely under the current leadership.

Overall, one could conclude that the recent strong economic performance of the country can be “blamed” for the lack of reforms. The general public is largely unaware of the mid-term consequences of fiscal deterioration and lack of a pension reform. The outgoing Social-Democratic Prime Minister was even quoted as saying that the pay-as-you-go

² The only piece of legislation that was somewhat affected by post-election negotiations concerns the new sickness insurance scheme. The introduction of the scheme will be only gradual, following a November decision made in the Lower Chamber of the Czech parliament, which is yet to be approved by the Senate.

³ The Czech Greens are less of a leftist party compared to their counterparts in EU-15 countries.

pension system requires little reform in the next 20 years. Czech politicians refuse to take responsibility for events beyond their 4-year political-cycle horizon.

2 Update on Economic and Labour Market Trends⁴

GDP Growth

In the 2nd quarter of 2006, the Czech economy's annual real growth rate was 6.2%—the highest growth recorded since the start of the quarterly time series in 1995. While the economy is booming, the government is providing additional fiscal stimulus. The government deficit (excluding privatization receipts and transfers to transformation institutions) is estimated to widen to almost 4 percent of GDP, reflecting mainly higher social transfers. The increase in social spending occurs in a country where the population share receiving social welfare assistance exceeds that in other new EU member states.

Wage and Income Developments

Real wage growth stood at just below 4% in the second quarter of 2006, with wages growing only somewhat faster in the enterprise sector compared to the public sector. Given the robust growth of productivity, wage growth is thus of little concern.

Employment and Unemployment

There was little change in the Czech employment rate when comparing the third quarters of 2006 and 2005, but the ILO unemployment rate (for age group 15 to 64) decreased by 0.8 of a percentage point during the same period, reaching a four-year low of 7.1%. There was a similar annual drop in the registered unemployment rate, which stood at 7.9% as of the third quarter. Looking at the structure of registered unemployment, several demographic groups experience only little unemployment decline: the handicapped, recent mothers, recent college graduates, unemployed over 50 years of age, and the large group of those with only elementary education, who currently form almost a third of all registered unemployed. Unfortunately, there is little improvement in long-term unemployment incidence, despite the substantial annual rise in the number of vacancies registered at the DLOs (the rise is partly due to new reporting requirements).

3 Labour Market Policy Developments

3.1.1. Introduction to broad policy and/or institutional changes or plans

There are no broad policy plans in place.

⁴ A table providing key economic and labour market indicators is attached at the end of the report.

3.1.2. Implementing employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.

There is increasing anecdotal evidence that employers find it hard to fill even low-skill vacancies with employable workers even in regions that display high unemployment rates. There is high outflow from unemployment registry due to lack of cooperation by unemployed who are offered jobs but refuse to show up for interviews. There is also anecdotal evidence suggesting that the DLOs are active in identifying and penalizing violations of the Labour Code such as employment of foreign labour without all of the necessary permits or discrimination in hiring.

3.1.3. Attracting and retaining more people in employment, increasing labour supply and modernising social protection systems

- *Promoting a lifecycle approach to work (Guideline No.18)*

The designed Minister of Labour and Social Affairs (of the first and failed government attempt) called for the establishment of a multi-partisan committee that would prepare simple first-step changes in the parameters of the PAYG Czech system, including an increase in the statutory retirement age. Such parametric changes would then lay ground for a future comprehensive pension reform. Unfortunately, this proposal has no political weight so far.

The Czech fertility rate continues to hover below 1.3, suggesting that the country's native population will continue to shrink in the foreseeable future. Active immigration programs are of little help in sustaining population size. The flagship government program designed to attract skilled labour failed to attract even the negligible 1000 foreign workers it planned to bring into the country under improved long-term residency conditions. In this regard, it is important whether the Czech Republic will open its labour market to workers from Bulgaria and Romania after these countries join the EU. There has been no decision taken so far (due to the lack of government), but it seems that the MoL does not oppose opening of the Czech labour market to the most recent EU member states.

- *Ensuring inclusive labour markets, enhancing work attractiveness, and making work pay for jobseekers, including disadvantaged and inactive people (Guideline No.19)*

In our previous reports, we have highlighted the improvement in the flexibility of services provided to Czech handicapped brought about by the recently approved law on social services. The law should allow handicapped to use their entitlements to buy social services not only from government but also from private service providers. It will become effective in the next year, but regional governments, which administer social services, complain that the funding provided by the central government within the 2007 budget is insufficient.

- *Improving the matching of labour market needs (Guideline No.20)*

The most important recent change supporting matching of labour market needs is the gradual lifting of rent controls, which should allow for more territorial labour mobility. Regulated rents are supposed to grow on average by almost one fifth during the next year and are expected to reach market rent levels by 2010. Meanwhile, there is a continuous rapid growth of the Czech mortgage market and a construction boom.

3.1.4. Improving adaptability of workers and enterprises

- *Promoting flexibility combined with employment security and reducing labour market segmentation, having due regard to the role of the social partners (Guideline No.21)*

The Labour Code proposed by the previous Social Democratic government in close cooperation with trade unions will become effective in January 2007. The recent attempt of the designated Minister of Labour to correct a long list of mistakes he identified in the Code has failed. The new Code introduces flexible work-time accounts, but it mainly simply petrifies the existing complicated nature of labour legislation. It aims to cement a high level of employment protection and strengthen the role of trade unions in collective bargaining. It fails to relax the high costs of laying off for short-tenure contracts. The only study which provides some quantitative evaluation of potential impacts of the new Labour Code has been published by the central bank finding that the new code will not increase flexibility much.⁵

- *Ensuring employment-friendly labour cost developments and wage setting mechanisms (Guideline No.22)*

The Ministry of Finance released a study of its working group on taxing income and property in the Czech Republic. The study provides a detailed overview of economic and institutional practices and points to possible changes and reforms. The study is very detailed and gives no explicit summary or conclusions.

Employer associations recently voiced their opposition to further increases in the statutory minimum wage. Unfortunately, there is no credible economic analysis of the employment effects of the recent streak of minimum-wage increases. In general, little effort is made to finance good quality policy oriented research on important labour market issues.

3.1.5. Increasing investment in human capital through better education and skills

- *Expanding and improving investment in human capital (Guideline No.23)*

⁵ Analyses of the Czech Republic's current economic alignment with the euro area 2006. See list of references for web link.

- *Adapting education and training systems in response to new competence requirements (Guideline No.24)*

An increasing number of pupils in Czech public schools are children of foreigners living in the country, but there are few programs that would support Czech-language acquisition of these pupils. There is also anecdotal evidence that there is insufficient construction of new elementary schools in sub-urban areas of major cities that recently experienced a large inflow of residents departing from inner city neighbourhoods. The key problem seems to be lack of common incentives and coordination between municipal, regional, and central government. There are no funding programs available for new school construction.

Policy developments and the Country Specific Recommendations

In this section we relate recent policy developments to the Commission's assessment of National Reform Programmes that was appended to the Annual Progress Report 2006.

| Recommendation | Progress achieved and relevant sources |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Continue public finance reform | No reform is in place. Fiscal position deteriorates due to irresponsible social-transfer increases. |
| Pension system reform | No developments due to lack of political consensus. |
| Increase labour market flexibility. | A set of welfare legislation (described in previous SYSDM reports), which was originally supposed to reduce the inactivity trap but later made more generous in the parliament, is to be put into effect in 2007. A schedule for removing rent control in housing should help labour mobility. The new labour code brings somewhat wider contractual freedom (working time accounts), but fails to lighten dismissal rules for those on permanent contracts. |
| Seek greater inclusion in the labour market (disabled, Roma population, and resident ethnic minority). | No policy developments. Long-term unemployment incidents stagnant despite robust economic growth. |
| Improve education: More effort to increase investment in human capital so the proposed reforms in the educational system can be fully implemented. Greater effort to implement a comprehensive lifelong learning strategy, and especially in continuing education. Increase incentives for individuals and employers to invest in training. | No action. Work continues on preparing the implementation of a new law on certification of informal education. |
| Focus attention on the most disadvantaged groups in the labour market; regional disparities | Old-age pensioners are not eligible for income tax |

| | |
|-----------------------------------------------------------|-------------------------------------------------------------|
| in unemployment; and the gender dimension. | credits. No progress in lowering regional disparities. |
| Careful assessment of new measures to be put into effect. | Little assessment in place; no changes announced. |
| Modernisation of public employment services | A pilot project of Labour Market Institutes is in progress. |

4 Recent labour market reports, surveys and other documentation

MoL - ESA

[Information on trends in pecuniary household incomes and living expenditures for the 1st half of 2006] Informace o vývoji peněžních příjmů domácností a životních nákladů za 1. pololetí 2006.

National action plan for employment 2004-2006.

http://portal.mpsv.cz/sz/politikazamest/narodni_politika_zam

New bi-annual report [Analysis of employment and unemployment for the 1st half of 2006], Analýza vývoje zaměstnanosti a nezaměstnanosti za 1. polovinu roku 2006..

http://portal.mpsv.cz/sz/politikazamest/trh_prace

Regular MoL - ESA monthly and quarterly press briefs on registered unemployment.

<http://www.mpsv.cz/clanek.php?lg=1&id=32>

News on minimum wage - minimální mzda

<http://www.mpsv.cz/cs/2214>

CSO (Czech Statistical Office)

Time series: http://www.czso.cz/csu/redakce.nsf/i/casove_rady

Latest indicators: <http://www.czso.cz/csu/csu.nsf/aktualniinformace>

Quick Information: <http://www.czso.cz/csu/csu.nsf/archivri?openform>

Labour and Social Stats: <http://www.czso.cz/csu/edicniplan.nsf/aktual/ep-3>

Analysis & Comments: http://www.czso.cz/csu/redakce.nsf/i/analyzy_csu

Časové řady: Mzdy [Time series: wages]

<http://www.czso.cz/csu/csu.nsf/informace/cpmz08300505.doc>

Časové řady: Konjunkturální průzkum [Time series: confidence indicators]

http://www.czso.cz/csu/redakce.nsf/i/kpr_cr

RILSA (Research Institute for Labour and Social Affairs at the MOL)

New reports and studies available at <http://www.vupsv.cz/zpravy.htm>

[Early assessment a profiling in employment services] Early assessment a profiling ve službách zaměstnanosti]. Zahraniční zkušenosti a spolehlivost odhadu v ČR. Soukup, Tomáš

[Socio-economic position of self-employed in society (interim report)] Sociálně ekonomické postavení osob samostatně výdělečně činných ve společnosti (průběžná zpráva za rok 2005). /Kotýnková, Magdalena – Baštýř, Ivo – Bruthansová, Daniela – Novák, Jaroslav - projekt Moderní společnost a její proměny - Sociálně ekonomické postavení osob samostatně výdělečně činných ve společnosti

[Employment and care for small children from the perspective of parents and employers]. Zaměstnání a péče o malé děti z perspektivy rodičů a zaměstnavatelů. Kuchařová, Věra a kol.

[Factors of social exclusion]. Faktory sociálního vyloučení. Mareš, Petr

[Labour market trends and labour migration in the Czech republic]. Trendy trhu práce a pracovní migrace v Česku. Horáková, Milada (září 2006)

NÚOV <http://www.nuov.cz/>

[Unemployment of graduates from secondary and higher education] Nezaměstnanost absolventů škol se středním a vyšším odborným vzděláním. Festová, J. - Vojtěch, J. Praha, NÚOV 2006.

[Development of professional requirements in selected sectors of national economy.] Vývoj profesních nároků ve vybraných odvětvích národního hospodářství a náměty pro jejich reflexi v odborném vzdělávání. Doležalová, G. Praha, NÚOV 2006.

Miscellaneous

New [Inflation Report] Zprávy o inflaci. Czech National Bank.

http://www.cnb.cz/www.cnb.cz/cz/menova_politika/zpravy_o_inflaci/zoj_2006_rijen.html

[Analyses of the Czech Republic's current economic alignment with the euro area 2006] Analýzy stupně ekonomické sladění České republiky s eurozónou 2006.)

http://www.cnb.cz/www.cnb.cz/en/monetary_policy/strategic_documents/download/analyses_of_alignment_2006.pdf

New [Macroeconomic forecasts for the Czech Republic, October 2006] Makroekonomická predikce České republiky, říjen 2006. Ministry of Finance.

http://www.mfcr.cz/cps/rde/xchg/mfcr/hs.xsl/makro_pre_26761.html

[Taxing income and property in the Czech Republic], Zdanění příjmů a majetku v ČR. Report of a working group at the MF CR.

http://www.mfcr.cz/cps/rde/xbcr/mfcr/Vystupni_material_expertni_skupiny_pdf.pdf

[Career, family, and equal opportunities] Kariéra, rodina a rovné příležitosti. Gender Studies, 2006. www.genderstudies.cz

Public Opinion Research Centre (Centrum pro výzkum veřejného mínění)

Labour market related surveys:

Foreigners in the Czech Republic

Czech Public to European Union

Public opinion and relations between the Czech Republic and the neighbouring countries

Public opinion and unemployment in the Czech Republic

Public attitudes of Czech citizens to employment

What would we do if we lost our job?

http://www.cvvm.cas.cz/index.php?lang=1&disp=nase_spolecnost&r=1&offset=101

Table: Key economic and labour market indicators

| | | | | | | | 2006 | | | | | | |
|------|---------------------------------|------------------|-------|-------|-------|-------|-------------------|---------------------|-------------------|-------|-------|-------|----|
| | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Q1 | Q2 | Q3 | Q4 | | |
| Note | | | | | | | | | | | | Note | |
| 1 | Real GDP growth | y-to-y [%] | 2.6 | 1.5 | 3.2 | 4.7 | 6.1 ⁱ⁾ | 6.0 | 7.4 ⁱ⁾ | 6.2 | 5.9 | 5 | 1 |
| 2 | Inflation | EOP, 2000~100% | 104.7 | 106.6 | 106.7 | 109.7 | 111.7 | 114.9 | 114.0 | 115.0 | 114.9 | 115.4 | 2 |
| 3 | Productivity | y-to-y [%] | 102.1 | 101.1 | 104.3 | 104.8 | 104.8 | 104.3 | n.a. | n.a. | n.a. | n.a. | 3 |
| 4 | Consumer confidence | EOP [%] | -6 | -9 | -21 | -7 | -3.2 | n.a. | 1.9 | 2.2 | -1.2 | n.a. | 4 |
| 5 | Unemployment rate (registered) | EOP [%] | 8.9 | 9.8 | 10.3 | 9.5 | 8.9 | 8.3 ⁱⁱ⁾ | 8.8 | 7.7 | 7.9 | n.a. | 5 |
| 6 | Unemployment rate | EOP [%] | 7.9 | 7.3 | 8.2 | 8.2 | 7.9 | 7.2 ⁱⁱ⁾ | 7.7 | 7.4 | 7.1 | 6.9 | 6 |
| 7 | Employment rate | EOP [%] | 65.1 | 65.6 | 64.5 | 64.3 | 65.0 | 66.3 ⁱⁱ⁾ | 65.1 | 65.2 | 65.3 | n.a. | 7 |
| 8 | Innactivity rate total | EOP [%] | 29.3 | 29.2 | 29.8 | 29.9 | 29.5 | 28.5 ⁱⁱ⁾ | 29.5 | 29.6 | 29.7 | n.a. | 8 |
| 9 | men | EOP [%] | 30.5 | 30.6 | 31.4 | 31.4 | 31.3 | n.a. | 31.4 | 31.6 | n.a. | n.a. | 9 |
| 10 | women | EOP [%] | 49 | 48.7 | 49.3 | 49.4 | 48.9 | n.a. | 49.2 | 49.4 | n.a. | n.a. | 10 |
| 11 | ages 15-24 | EOP [%] | n.a. | 59.7 | 61.7 | 64.1 | 65.2 | n.a. | 66.7 | 67.4 | n.a. | n.a. | 11 |
| 12 | ages 25-39 | EOP [%] | n.a. | 14.0 | 15.2 | 14.9 | 14.7 | n.a. | 14.5 | 15.3 | n.a. | n.a. | 12 |
| 13 | ages 40-54 | EOP [%] | n.a. | 9.0 | 9.4 | 8.9 | 8.2 | n.a. | 8.0 | 7.7 | n.a. | n.a. | 13 |
| 14 | ages 55-64 | EOP [%] | n.a. | 56.6 | 56.0 | 54.8 | 52.6 | n.a. | 51.8 | 52.1 | n.a. | n.a. | 14 |
| 15 | Working time | EOP [hours/week] | 41.5 | 42.0 | 42.0 | 41.9 | 41.8 | n.a. | n.a. | 41.7 | n.a. | n.a. | 15 |
| 16 | Registered vacancies | EOP [thousands] | 52.1 | 40.7 | 40.2 | 51.2 | 52.2 | n.a. | 70.5 | 97.4 | n.a. | n.a. | 16 |
| 17 | Days lost through ind. disputes | [days] | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 17 |
| 18 | Real wages | y-to-y [%] | 103.3 | 106.4 | 106.0 | 103.0 | 102.3 | 104.0 | 104.1 | 103.9 | n.a. | n.a. | 18 |
| 19 | Nominal wages | y-to-y [%] | 107.7 | 106.9 | 106.8 | 106.2 | 104.8 | 106.9 | 107.0 | 106.9 | n.a. | n.a. | 19 |

Abbreviations used

y-to-y: year to year change

2000~100%: value for year 2000 is the base

Yellow (shadow) background marks forecasts by the Ministry of Finance "Makroekonomická predikce"

n.a. Not available yet

EOP ~ End of the period values

i) Preliminary

ii) Annual Average

Source, definition, link

- CSO, http://www2.czso.cz/csu/redakce.nsf/i/cr:_makroekonomicke_udaje
- 1 MFCR http://www.mfcr.cz/cps/rde/xchg/mfcr/hs.xsl/makro_pre.html
- CSO, http://www.czso.cz/csu/redakce.nsf/i/mira_inflace, Table 4
- 2 MFCR http://www.mfcr.cz/cps/rde/xchg/mfcr/hs.xsl/makro_pre.html, Table 2.2.
- 3 MFCR http://www.mfcr.cz/cps/rde/xchg/mfcr/hs.xsl/makro_pre.html, Table 3.2.
- Macroeconomic productivity=GDP in c.p. per worker
- CSO, http://www.czso.cz/csu/redakce.nsf/i/kpr_cr
- 4 Seasonally adjusted balances of confidence indicators
- Consumer confidence indicator is difference between answers growth (+) and decline (-) expressed in %
[Konjunkturální saldo je rozdíl mezi odpověďmi ve variantách růst (+) a pokles (-) vyjádřený v %.]
- 5 ESA, Monthly reports, EOP, before year 2004 other methodology used
- 6 CSO. LFS Quarterly Reports, sesonaly adjusted. Forecast by MFCR.
- 7 CSO. LFS Quarterly Reports, sesonaly adjusted. Forecast by MFCR
- 8 CSO. LFS Quarterly Reports, sesonaly adjusted, Computed as (1-participation rate)*100. Forecast by MFCR
- 9 dtto
- 10 dtto
- 11 dtto
- 12 dtto
- 13 dtto
- 14 dtto
- 15 CSO, LFS, Average weekly hours of work
- 16 ESA, Monthly reports
- 17 not available
- CSO. http://www.czso.cz/csu/redakce.nsf/i/pmz_cr
- 18 Forecast by MFCR capture non-corporate sector and corporate sector with firms with 20+ employees.
- 19 CSO. http://www.czso.cz/csu/redakce.nsf/i/pmz_cr, Forecast by MFCR capture non-corporate sector and corporate sector with firms with 20+
Wage index is expressed as % in given quarter relative the same quarter of the previous year